In the Face of Customers' Changing Behaviour, Should Italian Banks' Approach to Online Trading Remain the Same?

Franca Cantoni and Cecilia Rossignoli

Abstract What drives the behaviors of banks and their customers in times of profound changes? The modern crisis affecting economic and social systems has significantly diminished customers' willingness to invest, and this trend, together with improved information about financial services, has made them more price sensitive, more rational in their decision making, and thus more challenging for banks to attract. Therefore, banks have invested in projects to improve their internal processes and online services, in particular by deploying web 2.0–based mobile banking and payment opportunities. In the Italian banking sector, 12 years after the publication of "New Distribution Models for Financial Services: The Italian Banks' Approach to the On Line Trading Development," this article considers how general and structural changes in customer behavior and the banking sector have affected the strategy banks use to provide online trading services, including the use of outsourcing and new managerial practices.

Keywords On line trading · Banks · Outsourcing · Web 2.0 technology · Social trading

1 Introduction

This article consists of four main sections. The first briefly reviews business models adopted by Italian banks to meet customers' evolving needs, with a particular focus on the novelties that have arisen since 2000, the year that Cantoni and

F. Cantoni (✉)
Università Cattolica del Sacro Cuore, Piacenza, Italy
e-mail: franca.cantoni@unicatt.it

C. Rossignoli
Business Administration Department, University of Verona, Verona, Italy
e-mail: cecilia.rossignoli@univr.it

P. Spagnoletti (ed.), *Organizational Change and Information Systems*, Lecture Notes in Information Systems and Organisation 2, DOI: 10.1007/978-3-642-37228-5_3,

Rossignoli published "New Distribution Models for Financial Services: The Italian Banks' Approach to the On Line Trading Development." Then we describe customers' demands for financial services, as well as how they have changed and the peculiarities of new, integrated services offered by web 2.0–based technology.

In the third section, we argue that to overcome their lack of specific competencies and technology, banks do not need to outsource anymore but instead can turn to smart sourcing. Banks should focus their precious resources on what they do best and innovate on their core competencies, but they also need partners that can innovate in non-core processes. Smart sourcing entails the use of partners that can help the bank do so, as well as balance risk and opportunity, lower costs, increase innovation across all processes, and put in place attitudes to optimize these factors, both socially and politically. Outsourcing and offshoring (which were common when e-banking was still trying to enter the market) are essential components only if they pave the way for banks to free up resources to focus on their core competencies and generate greater innovations. Finally, this article concludes by summarizing the main differences in the online trading scenario between 2000 (the year the foundational article for this research was published) and today.

2 The Italian Banking System: Is the Search for New Business Models Still in Progress?

The deregulation process adopted by the Banca d'Italia aimed to ensure the Italian banking system met EU market demands, as well as match evolution of customer demands and diversified needs and deal with the consolidation in the market, which produced aggressive competition in offers of new financial products. These signals paralleled the massive restructuring of the Italian banking system, in which more than a decade ago, Italian banks started to adopt new business models and redesign their strategies [1]. Their competition was no longer based on the product or price but rather on customer loyalty and indirectly customer satisfaction [2]. In this setting, to gain a stable competitive advantage, banks also must improve their customer lifetime value. To do so, banks might focus on:

- A multichannel strategy that integrates innovative, electronic banking services with traditional ones and supports interactive management of relationships with customers across all channels.
- Guarantees of transparency and reduced information asymmetry between banks and customers, together with constantly upgraded online training and interactive opportunities.
- Offers of a vast amount of consumer choices to compose and manage their portfolios.

2.1 Multichannel Strategy

With a multichannel strategy, every customer can use the devices he or she prefers (telephone, e-mail, web), and the bank can adopt different policies according to channel choices, thus maximizing the benefits of every contact with the customer with higher added value services. On the basis of two main features—accessibility and level of coordination—we define four multichannel strategy models, as we show in Table 1, that reflect their intersection [3].

Model A is a basic multichannel strategy: The newly introduced channel appears side-by-side with the old one, with no integration between them. The customer simply chooses one; the bank thus avoids integration, cannibalism, and reward and pricing problems. Model A is most appropriate for banks that can create neat distinctions among customers on the basis of their channel preferences. As the new channel gets consolidated into the system, Model A evolves into Model B, a parallel multichannel strategy. For example, the manager of the new channel might ask for more decision control, in which case that channel starts to compete with the existing channel, instead of working in parallel. Some brokers even rely on e-banking services managed by a parallel company or another brand. Model A instead morphs into Model D if the bank offers the customer the option of simultaneously using different channels. In this case, the bank likely is interested in achieving global profitability. Finally, Model C is difficult to implement, because it requires coordination across channels and shared information, which is not possible if there is any competition across channels.

The most common models are B and D; Model B in particular arises from the constitution of an autonomous division. However, it is not always possible to identify the most convenient strategy or a perfect model to apply in each economic situation or by every specific bank. Each bank, according to its market, the profile of its customers, and its surrounding context, must determine the most suitable model.

Compared with 2000, the multichannel model is no longer a novelty; instead, it has become the norm in financial services [4]. It also features a greater focus on the customer, with the goal of optimizing the integration across different distribution channels and the range of products offered, which means a substantial change to the traditional market approach. Furthermore, banks today can exploit collaborative tools through web 2.0, not only to reach customers but also to invest in their loyalty. This approach transforms the Internet into a unique platform that provides services shared by various customers, generates value through the creative use of distributed and collectively integrated technologies, and allows for the distribution of new services and the improvement of those already in place [5].

Table 1 Multichannel strategy models [3]

	Competitive channels	Complementary channels
Multi-accessibility	Model C: cross-eyed	Model D: integrated
Mono-accessibility	Model B: parallel	Model A: base

2.2 Transparency and Information Flow

Transparency implies less *asymmetric information* and the provision of the best available information about the market and services. To improve transparency, Italian banks have formed the "Patti Chiari" consortium, with information available both on site and online. People consulting the Patti Chiari website find offers from different banking institutes and collect all the information needed to make a transaction. This improved information availability for customers has encouraged their mobility across banking institutes; the bank receiving the new customer even closes the old bank account and initiates the transfer process. Thus customers' average duration with any one bank is only eight or nine years.

The consortium also offers online training, meetings, forums, and seminars, including debates and discussions with traders and professionals, technical analysis conferences, descriptions of the use of platforms, and tips on investment techniques. Unencumbered access to information has premium importance in financial trading, such that the free exchange of information is of interest to small-scale and individual investors. The facilities provided on the platform help customers reach the best conditions for making their choice.

2.3 Diversified Portfolio

Banks offer modern customers a vast amount of investment portfolio choices. In contrast, in the 1990s, the limited availability of information and investment products, together with the advantage granted to an intermediary that sold one specific product instead of another, meant proposals were limited. Today customers can take advantage of unlimited proposals, ranging from those composed of intermediary products (e.g., funds managed by an SGR) to direct purchases of actions and obligations on the market. An intermediary might propose existing products available on the market or specialize by itself in a specific field. Moreover, traders can work together in trading teams, which can pool funds, divide research responsibilities, or share information.

Therefore the survival of any bank depends critically on its ability to maintain its faithful customers. In recognizing the importance of existing customers, the identity of banks has shifted, from the "agency that produces a service" to an "agency whose final scope is to understand and satisfy customers' needs" [5]. In turn, these faithful customers lead to higher profit margins for the firm.

3 Is this the Social Trading Era?

From the user's point of view, the Internet offers a steady distribution channel for a multitude of banking products and financial trade services. Prior to the emergence of the Internet, financial trading centered on the relationship between customers and brokers, requiring physical locations such as exchanges. As the Internet gathered momentum, electronic trading grew into a major focus for trades of financial assets among individual investors. The emergence of the web 2.0, as well as social networking functions through Facebook and Twitter, affected the financial trading industry significantly. Financial traders were among the earliest adopters of knowledge-sharing capacities. They perceived these services as new sources of information, whether financial, economical, or technical in their essence. Online financial trading companies have exploited the popularity of social networking channels; fully fledged social trading networks even have emerged, using online social networks as their model. The assimilation of web 2.0 properties into almost every trading platform has pushed financial traders to pursue information through these services, which is more social than financial. This information extraction is either explicit (intentionally following trading activities by one or more selected traders, manually or automatically) or implicit, such as when one person's trading decisions are unintentionally influenced by the trading activities of others.

Web 2.0 technology also offers banks a chance to obtain advantages over their competitors in terms of improved operative efficiency, competitive cost structures, and scale economies and flexibility [6]. Thus web 2.0 technology assumes a fundamental role in the new competitive scenario, where financial brokers act aggressively and represent innovative, dynamic resources for banks, as well as catalysts of new techniques and new and customized services.

3.1 Social Trading

The pervasiveness of web 2.0 technology and tools is so evident that it has prompted a named trend: "social trading." This label refers to the process in which financial investors rely heavily on user-generated financial content gathered from various web 2.0 applications, such that it becomes the major information source in their trading decisions. Social trading also suggests a new way to analyze financial data. Until recently, investors and traders relied on fundamental technical analyses to form investment decisions. Now the investment decision process integrates social indicators, fuelled by transparent, real-time trading data that is available to all users of the social trading network. This trend suggests a new term, "social financial analysis."

3.2 Questions of Image and Gist

Web 2.0 technology can support strategies based on the differentiation and expansion of services offered; it aims to give banks a precise image, recognized by the sector more widely [7]. Integrated technology reflects the accuracy and rapidity of processes and communication forms in the market, which supports wider adaptability of the services offered to specific customers' needs. It also promotes integrated offers of the wide range of services, such that it can contribute to sustainable advantages over competitors. Such technology offers a real strategic lever, able to manage changes by redefining banks' distributive model. In particular, through online technologies, banks can meet their customers' individual needs and induce significant changes in the nature of their competition. Customer satisfaction demands more than prompt, courteous service; it also requires designing products and services to meet individual customer needs [6]. Thus, the exploitation of web 2.0 technologies represents a critical success factor.

In such a scenario, a set of question naturally arises, not necessarily confined to the Italian experience: How should banks react to technological changes? Should they regard this potential new role as Internet brokers as a strategic opportunity or an unnecessary burden that distracts them from their core business? How can the Italian banks leverage the positive aspects to gain a competitive advantage and improve their competitive position in the financial sector? We address these questions and offer some related insights in the following section.

4 Smart Sourcing

The continuous growth of new products and services whose diffusion takes place through the Internet provides Italian banks with an opportunity to reassess which activities should remain in house and which should be sourced externally, whether through purchase or cooperative agreements [8, 9]. Quinn and Hilmer [10] suggest that banks should concentrate their resources on a set of "core competencies" that grant them definable pre-eminence and provide unique value to customers [11] but strategically outsource other activities [12]. If we apply the recommendation to a typical Italian bank that offers online services, it appears immediately clear that such trading is becoming a core service. Although it represents a critical strategic need, the bank does not always have the capabilities needed to offer this kind of service, nor is it necessarily in a position of technology leadership.

The bank's decision to outsource its online service stems from multiple drivers, both tactical (e.g., cost reductions, unavailability of internal resources) and strategic (e.g., improved bank focus, acceleration of reengineering benefits, access to world-class capabilities, risk monitoring) [13]. Swamidass [14] proposes a three-stage evolutionary process of sourcing decisions: cost minimization, competitive advantage, and strategic asset. With customer satisfaction as a lever of business

tactics, competitive advantages of Italian banks stem from their ability to create value for customer in terms of quality, service, and product innovation. We argue that all three stages combine, because a bank that brings its trading online services in-house can simultaneously minimize costs, gain and sustain competitive advantages, and exploit its strategic assets by reverting to smart sourcing instead of outsourcing.

4.1 Reconciling the Seemingly Contradictory Mandates of Cost Cutting and Innovation

As a business decision, smart sourcing leverages the competencies of service providers (internal and external) to achieve significant increases in total innovative capacity. It requires the bank to be able to combine in-house solutions with outsourcing and thereby achieve greater synchronization and coordination of processes that may reside across multiple internal and external partners. Furthermore, they must recognize that driving down costs is not an episodic phenomenon. Instead, continuing and accelerating pressures to drive costs down will persist. The answer to this ever-rising challenge of attaining productivity with lower costs lies in a new approach that features:

- A global view of managing work and its movements through tightly orchestrated business processes.
- A new smart sourcing model for partnering with service providers that creates high accountability, innovation, and trust.
- A sustained focus on shedding non-core activities to invest profitability in core competencies.

Our analysis shows that smart sourcing—using partners so that the bank can focus on its core capabilities—balances risk and opportunity, lowers costs, increases innovation across processes, and establishes appropriate attitudes to optimize these factors. Outsourcing and offshoring are essential components of this solution, though only if they help organizations free up resources so they can focus on core competencies that lead to greater innovation.

For example, ABILab, observing IT banking architectures in 2010, found that 27.7 % of banks use in-sourcing, whereas 51.7 % outsource. Small and medium-sized banks (fewer than 500 branches in the national territory) tend to use total outsourcing as a managerial practice. Cedacri [15] also shows that global outsourcing allows them to access more specific competencies and more flexibility in the operational area. The outsourcing decision thus ultimately depends on the bank's size. The three largest groups—Intesa Sanpaolo, Unicredit, and Monte Paschi Siena—all prefer in-house solutions (in-sourcing) and create specific intergroup societies or define specific internal functions. Medium-sized banks (e.g., Banco Popolare, UBI Bank, BPER, BNL, BNP Paribas, BPM, Credem,

Pop. VI Bank, Veneto Banca) use mixed systems, such that they retain most application solutions in-house and externalize other functions, such as facility management. According to Cedacri [15] some small- to medium-sized banks instead adopt full outsourcing of applications and infrastructure which is much more frequent than outsourcing of processes. Currently 95 % of operators entrust, totally or partially, their informative system to an outside source.

To estimate the convenience of outsourcing, banks must consider their positions and whether they belong to a larger group. It may be appropriate to outsource when ICT costs are substantial as a proportion of total assets. From this point of view, banks in groups likely perceive a weaker relationship between costs and assets, compared with other, non-group banks, and thus may gain an advantage from outsourcing [16].

4.2 The Outsourcers

In an uncertain, competitive environment, banks seek economic efficiency and prefer to share business and technology risks [17]. Table 2 contains a list of the main outsourcers operating in Italy and their descriptions, in an attempt to reveal how banks behave when they create *ad hoc* companies.

In Italy, "co-sourcing" relationships (see Fig. 1) describe many-to-one alliances in which several clients contract with a single IT vendor for services, and these are the most diffused structures.

Table 2 List of outsourcers (authors' elaboration)

Outsourcer	Typology	Members/stockholders/main banks
SIA SSB	Consortium	Intesa San Paolo, Unicredit, Monte dei Paschi di Siena, Banca Nazionale del Lavoro, Telecom Italia, UBI Banca, ICBPI, Deutsche Bank, Banco Popolare, Banca Popolare di Milano
CEDACRI	Consortium	Banca Mediolanum, Gruppo Credem, Banco Desio, Gruppo UGF, Barclays, Banca Etruria, IW Bank
CSE	Consortium	ING Direct, Unibanca
UBI SISTEMI E SERVIZI	Consortium	–
SGS BP	–	Company belonging to the Banco Popolare group; it provides the technological infrastructure, information services, and application software to the group
SEC	Consortium	Provides Banca Popolare di Vicenza, Veneto Banca, Che Banca, and Allianz bank, which are also partners.
ISIDE	Consortium (cooperative banks)	Born to provide services to cooperative banks ICCREA, but also includes non-cooperative members
BASSILICHI SPA	–	Participated by Monte Paschi Siena and Banca Popolare dell'Emilia Romagna

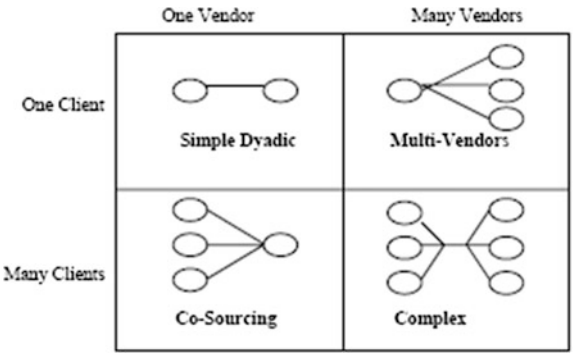

Fig. 1 Taxonomy of *four classes* of outsourcing relationships [16]

For example, Monte Paschi Siena and many other large banks participate in the stock capital of more than one outsourcer. These large Italian banks appear particularly committed to developing their own "insourcers," dedicated companies internal to the group. Other banks, mostly smaller ones, rely on consortia that they create so that they may share the costs of information systems or combine their efforts to create a dedicated insourcer company. Yet another choice evident in a few banks is to turn to a multinational with extensive experience, as when Fineco Bank, Banca Popolare del'Emilia Romagna, and BancoPosta rely on, respectively, Sistemi Informativi Spa (Gruppo I.B.M.), Oracle Italia, and SAP Italia.

5 Conclusions

Twelve years after the publication of "New Distribution Models for Financial Services: The Italian Banks' Approach to the On Line Trading Development," [18] we argue that the Italian market is now assisting in the explosion of online trading and bank branches are not unique or preferred channels for customers to perform transactions. Italian banks are well aware of these trends and recognizing the enormity of the changes, which is increasing the urgency with which they develop new and adequate strategies. Furthermore, research into new business models has expanded in the past 12 years: the idea that there is no one universal model, but rather situational and contingent preferences that fit each unique situation, has emerged and become consolidated. The "social trading era" also is affecting these situational models, and web 2.0 technology is assuming a fundamental role in the new competitive scenario [19–21]. In this sense, the development of adequate information systems to support changing customers' needs constitutes a truly important opportunity for retaining customers and developing their loyalty.

Smart sourcing might help banks combine in—and outsourcing solutions, decrease costs, and substantially enhance business process excellence and innovation through collaborative partnerships. Such co-sourcing as a business practice

allows a service to be performed by staff within the organization, as well as by an external service provider. For banks engaged in offering online trading services, co-sourcing provides an advantage over total outsourcing, in that it minimises sourcing risks, enhances transparency and clarity, and offers better control over processes.

Research limitations/implications. In this initial attempt to address the focal research question, the focus is on a literature review and in-depth investigation of banks' websites, along with documentation from Italian economic and financial journals and data gathered from ABI. Some subjectivity is involved in interpreting the results, as is the case for any study that adopts a real-life approach.

References

1. Padovan, F. (2011). *Come investono le banche nel* 2011. Bancaforte.
2. Merola, B. (2002). Una proposta di qualificazione delle dinamiche concorrenziali in ottica sistemico vitale, Atti AIDEA, Giuffré, Milano.
3. Nieri, L. (2002). La distribuzione dei servizi bancari e finanziari, i principi della Marketing Channels Theory per la costituzione di un sistema distributivo efficace ed efficiente, Banche e banchieri, 5.
4. Frei, F.X., et al. (1990). *Performance in consumer financial services organizations: Framework and results from the pilot study*. Philadelphia: The Wharton School, University of Pennsylvania.
5. Caleca, M., Gatelli, P., & Patrignani, N. (2008) CRM 2000 Cetif technology outlook. http://www.onbanca.com/docs/Banca-Online-CeTIF-crm.pdf.
6. Rockart, J. F., et al. (2006). *The new IT organization: Eight imperatives*. Cambridge: MIT Press.
7. Pole, A., Puschmann, T., Fischbach, M., & Alt, R. (2011) Web 2.0 applications in private banking: Classification, potentials, and application fields. *ECIS Proceedings*, *Paper* 266.
8. Currie, W. (1995). *Outsourcing: The new IT strategy, management strategy for IT, financial times* (pp. 131–153). London: Pitman Publishing.
9. Jennings, D. (1996). Outsourcing opportunities for financial services. *Long Range Planning, 29*(3), 393–404.
10. Quinn, J. B., & Hilmer, F. G. (1994). Strategic outsourcing. *Sloan Management Review, 35*(4), 43–55. Summer.
11. Quinn, J. B., Doorley, T. L., & Paquette, P. C. (1990). Technology in services: Rethinking strategic focus. *Sloan Management Review, 31*(2), 79–87. Winter.
12. Quinn, J. B. (1992). *Leveraging knowledge and service based strategies through outsourcing, intelligent enterprise*. New York: Free Press.
13. Heng, S., Meyer, T., & Stobbe, A. (2007). Implications of Web 2.0 for financial institutions: Be a driver, not a passenger. *Deutsche Bank Research*.
14. Swamidass, P. (1993). Import sourcing dynamics: An integrative perspective. *Journal of International Business Studies*, 672–690.
15. Cedacri, (2000). White Paper.
16. Corigliano, R., & Torluccio, G. (2006). ICT e sistema bancario italiano: spesa, impatto sui processi e sulle performance, Banche e Banchieri, pp. 456–475.
17. Gallivan, M.J., & Wonseok, O. (1999). Analyzing IT outsourcing relationships as alliances among multiple clients and vendors, system sciences. *Proceedings of the* 32*nd Annual Hawaii International Conference on IS* (*HICSS*-32).

18. Cantoni, F., & Rossignoli, C. (2000). New distribution models for financial services: The Italian banks' approach to the on line trading development. *Journal of Electronic Commerce Research, 1*(2), 60–66.
19. Celent, (2008). Web 2.0 and retail banking: Less hype equals opportunity. Press release, 14 Nov 2008.
20. Kim, D. J., Yue, K. B., Hall, S. P., & Gates, T. (2009). Global diffusion of the internet XV: Web 2.0 technologies, principles, and applications: A conceptual framework from technology push and demand pull perspective. *Communications of AIS, 24*(1), 657–672.
21. van Zyl, A. S. (2009). The impact of social networking 2.0 on organisations. *The Electronic Library, 27*(6), 906–918.